



**SQI DIAGNOSTICS INC.**

Management's Discussion and Analysis of Financial  
Condition and Results of Operations

**December 31, 2015**

## Management's Discussion and Analysis of Financial Condition And Results of Operations

*This Management's Discussion and Analysis ("MD&A") covers the audited financial statements for the three months ended December 31, 2015 and 2014. The annual audited financial statements and MD&A for the year ended September 30, 2015 and the most recent Annual Information form ("AIF") can be found on SEDAR at [www.sedar.com](http://www.sedar.com).*

*All amounts are expressed in Canadian dollars unless otherwise indicated.*

*This discussion and analysis was prepared by management using information available as at February 10, 2016.*

*This document contains forward-looking statements that relate to future events or future performance and reflect our expectations and assumptions regarding our growth, results of operations, performance and business prospects and opportunities. Such forward-looking statements reflect our current beliefs and are based on information currently available to us. In some cases, forward-looking statements can be identified by terminology such as "our goal", "may", "would", "could", "will", "should", "expect", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential", "continue", "positioned" or the negative of these terms or other similar expressions concerning matters that are not historical facts. The forward-looking statements in this document include, among others, statements regarding our future operating results, economic performance, product development efforts, and statements in respect of:*

- *our requirement for, and our ability to obtain, future funding;*
- *our expected future losses and accumulated deficit levels;*
- *technological advances of competitive products and general market competition;*
- *our expectations regarding the acceptance of our products by the market;*
- *our expectations regarding the progress and the successful and timely completion of the various stages of the regulatory clearance process;*
- *our strategy to develop new products and to enhance the capabilities of existing products;*
- *our strategy with respect to research and development;*
- *our dependence on expanding our customer base;*
- *our plans to market, sell and distribute our products in Canada and the United States;*
- *our plans in respect of strategic partnerships for research and development;*
- *our ability to obtain a sufficient supply of the components needed for our products;*
- *our plans to retain and recruit personnel;*
- *our plans to correct defects or errors in our systems; and*
- *our strategy with respect to the protection of our intellectual property.*

*A number of factors could cause actual events, performance or results, including those in respect of the foregoing items, to differ materially from the events, performance and results discussed in the forward-looking statements. Factors that could cause actual events, performance or results to differ materially from those set forth in the forward-looking statements include, but are not limited to:*

- *the extent of our future losses;*
- *our ability to obtain the capital required to fund development and operations;*
- *development or commercialization of similar products by our competitors;*
- *our ability to develop and market our products;*
- *our ability to comply with applicable governmental and securities regulations and standards;*
- *our ability to develop and commercialize our technologies;*
- *delays or failures in our ability to develop and implement new diagnostic products;*

- *our ability to expand our customer base;*
- *our ability to market, sell and successfully commercialize our products;*
- *our ability to attract and retain skilled and experienced personnel;*
- *the impact of changes in the business strategies and development priorities of our strategic partners;*
- *loss of suppliers or increases to the cost of the components of our systems;*
- *the impact of legislative changes to the healthcare system and regulatory process;*
- *our ability to maintain effective internal control over financial reporting;*
- *damage to our manufacturing facility or its failure to accommodate future sales growth;*
- *the impact of unknown defects or errors and product liability claims;*
- *foreign currency fluctuations;*
- *our ability to obtain patent protection and protect our intellectual property rights and not infringe on the intellectual property rights of others;*
- *the expense and potential harm to our business of intellectual property litigation;*
- *stock market volatility;*
- *the fact that further equity financing may substantially dilute the interests of our shareholders; and*
- *other risks detailed from time-to-time in our ongoing quarterly filings, annual information forms, annual reports and annual filings with applicable securities regulators, and those which are discussed under the heading “Risk Factors”.*

*Although the forward-looking statements contained in this management discussion and analysis are based on what we consider to be reasonable assumptions based on information currently available to us, there can be no assurance that actual events, performance or results will be consistent with these forward-looking statements, and our assumptions may prove to be incorrect. These forward-looking statements are made as of the date of this document.*

## **OVERVIEW**

SQI Diagnostics Inc. was founded in 1999 to capitalize on two emerging opportunities: first, the large and growing number of blood tests performed to diagnose the state of a patient’s disease; and second, the need to reduce both the effort and associated costs of these tests. We believed that capitalizing on those trends will create a profitable business that will significantly benefit the life sciences industry and thereby SQI.

Today, both of these value-propositions are coming true: SQI provides best-in-class platforms which use customized consumable kits to reduce the time and cost required for testing while ensuring those tests are of the highest quality. We achieve this through “multiplexing” which allows our customers to get many results from a single test.

We have built custom tests for customers in the drug development market that deliver as many as 30 unique results from a single SQI test. In other words, we entirely remove the work our customers would have needed to perform, validate and run 30 different tests.

As a result, SQI is now transitioning from an R&D company into a revenue-generating, commercial enterprise. This is borne out in our results: a year ago, our revenues were essentially zero, and at the end of fiscal 2015, they were \$443,000. This revenue traction has continued into the first quarter of fiscal 2016 with revenues of \$197,000.

However, these revenues were generated from development and validation services as opposed to revenues from platform and consumable kit sales. In fiscal 2016, we expect to generate revenue from the recurring sales of testing platforms and consumables to 'market-ready' customers. The Company is in active negotiation with two of its global Pharma customers, and a major diagnostic customer for the sale of platforms. SQI expects to complete the sale of a platform delivered for evaluation in fiscal 2015 and has finalized the agreement for the delivery of a second platform for a 60 day evaluation. Sale of these platforms will lead to the ongoing sale of SQI's range of consumable products to these customers.

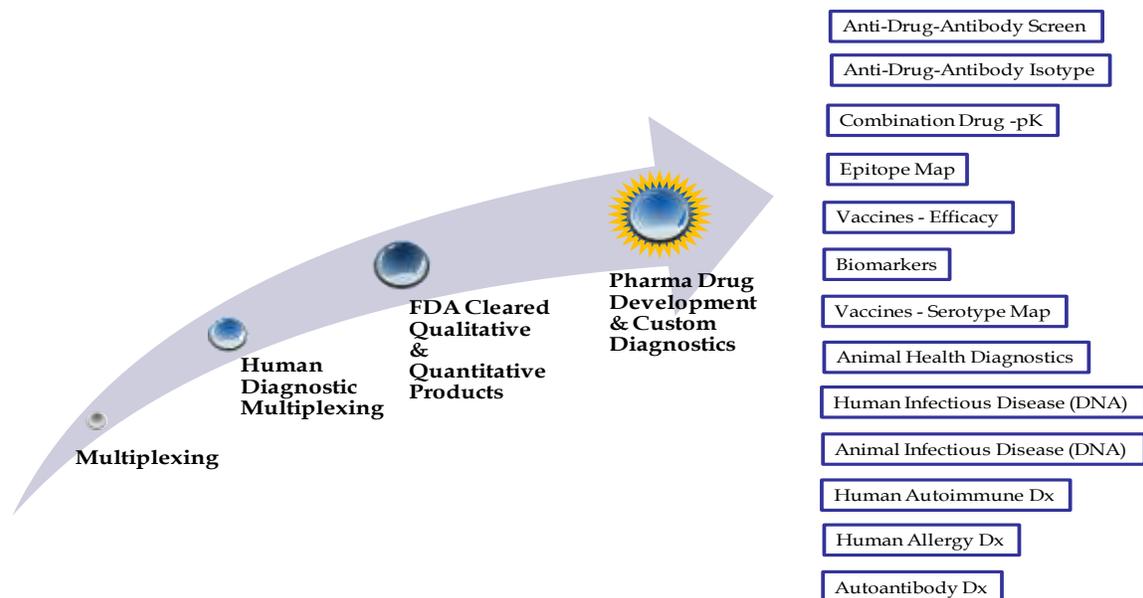
In our drug development sector we are advancing projects with two global pharmaceutical customers to the automation stage. This will enable tests previously developed for them to be run on our automated platforms. We are also receiving additional development requests for other drugs in our customer's development pipeline. Our sales team continues to pursue these and other additional drug development opportunities. Not only are we expanding the number of customers that we service but we are also expanding the number of products that each of them uses. In the first quarter of fiscal 2016 we announced a product development agreement that formalizes the terms of multiple drug initiatives over the next 3 years. Two products are currently under development as a result of this agreement.

We have also been actively developing a new product offering for customers in our drug development sector. This new product includes kits and software that will allow our pharmaceutical customers to develop multiplexed tests using their in-development drugs and our kits to automate these tests on our platforms. Up to this point SQI has been paid to undertake development projects to built custom tests for our customers to use in the evaluation of their in-development drugs. This flexible consumable product gives our customers control over the development process and its timelines as they are able to develop their test in-house on SQI's xPlex consumables. Our new xPlex product allows them the flexibility to develop different types of tests for multiple programs at the same time. This new product strategy is in response to demand from our customers and offers two major benefits for the Company; it gives us a faster path to revenue from the sale of consumables, as these tests will be run using SQI printed plates and platforms to analyze results, and expands our target areas of application across as many uses as our customers can imagine. The first version of this development tool is expected to be delivered to facilitate the 60 day platform evaluation referred to above.

We are also advancing development work with our DNA customer to automate and scale-up the manufacturing for their infectious disease test panels. The first test for this customer is a 60-plex DNA-based test used to detect infections in human blood. Project timelines have been established to enable delivery of this platform to our customer for evaluation in the second quarter of 2016.

In our Animal Health sector we are in negotiations for the development of an allergen panel with a global veterinary products company. Our previous work to convert three existing veterinary infectious disease tests to the SQI platform is still under evaluation with the customer.

We have invested significantly in developing and patenting our technologies and automated systems so that our customers in the pharmaceutical, biotechnology and diagnostic markets can save considerable time and money. We have also expanded the range of applications for our multiplexing technology with two market groups: pharmaceutical and biotechnology drug developers and other diagnostic manufacturers. These applications are shown below:



In 2016 SQI will need to expand our manufacturing capabilities in order to meet anticipated customer demand for our consumable products. This scale-up is currently being planned and coordinated with our vendors and its execution will be planned to coincide with customer demand.

## **SQI Value Proposition**

We produce and market best-in-class platforms, which use our precisely customized consumable kits exclusively, creating a recurring revenue-stream that will be both high in volume and high in margin.

This value proposition is consistent across all our target markets. We significantly reduce both human labour and cost while delivering superior quality tests via “multiplexing” and automation.

This, in turn, creates a widening circle of benefits: it significantly reduces the effort to validate many different tests; and reduces the consumption of limited and very valuable blood samples, which allows our customers to run many different tests using 95% less blood. Currently, “many” means up to 30 different tests from a single SQI test. This removes the work needed to develop, run, and purchase materials for 30 separate single tests.

But the greatest benefit is that our unique multiplexing capabilities enable the testing market to expand in a major way by delivering more tests and creating more data at a lower cost. In addition, our automated systems are used to run the SQI tests “hands-free”, providing complete data analysis, which is seamlessly reported to our customers’ data management systems. Our scientists are successfully developing many different highly technical products in timelines and at levels of performance that have repeatedly exceeded our customers’ expectations.

Our Big Pharma and major biotech customers have supported our technology through their highly complementary presentations on our results at leading academic and international industry conferences. As a result, we can say with confidence that during the 2015 fiscal year SQI increased industry acceptance for our multiplexing diagnostic products from Big Pharma. As a result, we are poised to complete the sale of platforms in the coming quarters to customers in both Pharma and Diagnostics for whom we have been completing long, multiproduct evaluations. These platforms will provide a base which will generate recurring revenues from the sales of both custom designed consumables and routine tests; both run exclusively on SQI platforms. Once SQI technology and products have been embedded within the drug development protocols of our customers, we expect that their commitment will be long term and our base revenue streams secure, since changing FDA-approved protocols is both expensive and complicated. As our customers become familiar with installed SQI platforms and the many benefits derived from them, these relationships can be leveraged for additional market-development opportunities.

## **CORPORATE FINANCING TRANSACTIONS**

On December 15, 2015 and December 21, 2015 the Company completed a non-brokered private placement of an aggregate of 7,630,945 units of the Company at \$0.40 per unit for gross proceeds of \$3,052,000. Each unit comprises one common share of the Company and one common share purchase warrant. Each warrant is exercisable at a price of \$0.52 and entitles the holder thereof to acquire one common share for a period of three years from the date of issuance. The proceeds from the issuance of units are allocated between capital stock and warrant capital based on their relative fair values, with \$1,183,000 being allocated to warrant capital. The fair value of the warrants was estimated using the Black-Scholes pricing model with the following assumptions: share price \$0.30; dividend yield 0%; risk free interest 0.54%; volatility 125%; and an expected life of 3 years. Expected volatility is based on historical volatility. The total share issuance costs were \$32,000.

On December 4, 2014 1,199,052 warrants, having reached the maximum term allowable under TSX rules, expired unexercised. The warrants were issued in December 2009 in connection with a private placement. Accordingly, \$1,107,000 was transferred from warrant capital to contributed surplus in 2015.

Subsequent to the quarter ended December 31, 2015 the Company extended the expiry of 2,965,000 warrants that were issued in connection with a private placement in January 2014. Each Warrant entitles the holder thereof to purchase one common share of the Company at any time until the close of business on January 26, 2016 at an exercise price of \$0.65 per common shares. The Warrants were amended to extend the term of such Warrants until January 26, 2017. All other provisions of the Warrants remain the same.

## SELECTED FINANCIAL INFORMATION

### First Quarter Commentary

The table below summarizes quarterly financial information for the three month periods shown.

	December 31, 2015 (000s)	September 30, 2015 (000s)	June 30, 2015 (000s)	March 31, 2015 (000s)
Revenue	\$ 197	\$ 178	\$ 180	\$ 70
Net Loss	\$ 1,358	\$ 1,548	\$ 1,571	\$ 1,613
Net Loss Per Share	\$ (0.02)	\$ (0.03)	\$ (0.03)	\$ (0.03)
Weighted Average Shares	63,115	60,847	56,381	56,336
	December 31, 2014 (000s)	September 30, 2014 (000s)	June 30, 2014 (000s)	March 31, 2014 (000s)
Revenue	\$ 15	\$ 67	\$ 32	\$ 18
Net Loss	\$ 1,365	\$ 1,546	\$ 1,449	\$ 964
Net Loss Per Share	\$ (0.02)	\$ (0.03)	\$ (0.03)	\$ (0.02)
Weighted Average Shares	56,336	56,336	55,505	47,080

During the first quarter of fiscal 2016 the Company continued to record revenue resulting from product and services sales in our drug development business. Revenue for the three months ended December 31, 2015 was \$197,000 compared to \$15,000 for the same period last year.

For the quarter ended, the Company recorded a net loss of \$1,358,000 (\$0.02 net loss per share) as compared to the net loss of \$1,365,000 (\$0.02 net loss per share) for the quarter-ended December 31, 2014. Per share values are based on the weighted average shares outstanding in the relevant period. For the quarter-ended December 31, 2015 there was an average of 63,115,000 shares outstanding.

The net loss for the three months ended December 31, 2015 is consistent with the loss for the three months ended December 31, 2014. The increase in interest and accretion costs was offset by increases in revenues over the relevant period.

R&D expenditures, excluding amortization and stock based compensation, for the three months ended December 31, 2015 were \$713,000 compared to \$684,000 for the same

period in 2014. The costs are higher for the current quarter compared to the same period in 2014 due to additional resources added to the scientific team and general salary increases.

Corporate and general expenses include salaries and related expenses (including benefits and payroll taxes) of the Company other than salaries and related expenses paid to personnel engaged in research and development. Salaries and wages were \$157,000 for the quarter-ended December 31, 2015 compared to \$111,000 for the quarter-ended December 31, 2014. The increase is attributable to staffing changes and primarily relate to salary for a Chief Financial Officer hired in the second quarter, 2015.

Corporate and general expenses also include general and administrative expenses which comprise occupancy costs, insurance costs, foreign exchange expenses, and other general operating costs. General and administrative expenses were \$126,000 for the three months ended December 31, 2015 compared to \$125,000 for the comparable period ended December 31, 2014. General and administrative costs were consistent over the three month periods.

Professional consulting (legal, accounting, Board of Directors compensation, recruiting, administrative contractor, and investor relations) costs in the three months ended December 31, 2015 were \$112,000 compared to \$123,000 for the three months ended December 31, 2014. The decrease in professional and consulting costs for the current quarter compared to the same period last year is a result of Board of Directors fees being waived since April of 2015, which offsets increases in legal and investor relations fees during the period.

Sales and marketing expenses were primarily related to sales and marketing consultant fees and to travel related to selling activities in the quarter. Sales and marketing expenses, excluding stock based compensation, totalled \$153,000 for the three months ended December 31, 2015 compared to \$160,000 for the three months ended December 31, 2014. Sales and marketing expenses were lower in the first quarter compared to the same period in the previous year. In the current quarter the Company lost one sales contractor and is currently in the process of filling that position. The decrease in contractor fees is offset by increased costs as a result of the lower Canadian dollar.

Non-cash stock based compensation charges totalled \$48,000 for the three months ended December 31, 2015 compared to \$36,000 for the three months ended December 31, 2014. The related stock option issuances are detailed later in this document.

Interest income earned on short-term investments equalled \$3,000 for the three months ended December 31, 2015 compared to \$3,000 for three months ended December 31, 2014. The Company invests its cash in variable term cashable government investment certificates and short-term money market deposits.

## **Sources and Uses of Cash**

Management expects losses to continue into fiscal 2016 as investment continues in product development and commercialization efforts for its pipeline of custom Ig\_plex consumable kits and platforms, IVD tests and sales and marketing initiatives. Management expects to reduce losses later in fiscal 2016 as it generates revenues from a variety of Diagnostic Tools and Services' customers.

The Company has funds sufficient to meet our anticipated operating cash requirements for approximately the next six months. However, capital expenditures to increase manufacturing capacity, the purchase of platforms in anticipation of customer demand and the payment of the upcoming interest obligations will impact the Company's cash resources. As a result, the Company is actively reviewing its forecast expenditures, capital needs and financing options.

Operating activities for the quarter-ended December 31, 2015 were financed by cash on hand and from financing initiatives closed during the quarter.

At December 31, 2015, current assets were \$4,331,000 compared to \$2,555,000 at September 30, 2015. As at December 31, 2015 the Company has a \$3,555,000 working capital surplus compared to a surplus of \$1,787,000 at September 30, 2015.

Cash used in investing activities for the quarter-ended December 31, 2015 was \$108,000 compared to \$98,000 for the prior period. The Company continues to critically evaluate all capital asset purchases and is continually evaluating all patent and trademark expenditures. Investing activities were focused on maintaining the Company's patent and trademark portfolio, strategic laboratory equipment purchases and upgrading computer equipment.

## **RISK FACTORS**

An investment in our common shares involves a number of risks. In addition to the other information contained in this Management Discussion and Analysis, including our consolidated financial statements and related notes for the year ended September 30, 2015, investors should give careful consideration to the following risk factors. Any of the matters highlighted in these risk factors could have a material adverse effect on our business, results of operations and financial condition, causing an investor to lose all, or part of, its, their investment.

The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are not aware of or focussed upon, or that we currently deem to be immaterial, may also impair our business operations and cause the trading price of our common shares to decline.

## **Risks Related to Our Business and Strategy**

*Our future capital needs are uncertain and we may need to raise additional funds in the future, which may not be available on a timely basis or on commercially reasonable terms.*

*We have incurred losses since inception, and we expect to continue to incur losses for the foreseeable future.*

*Market competition and technological advances of similar diagnostics products could reduce the attractiveness of our products or render them obsolete.*

*If our products fail to achieve and sustain sufficient market acceptance, our revenue will be adversely affected.*

*We are subject to complex regulatory compliance requirements and the failure to obtain, or the withdrawal of, regulatory clearance or approval for our products could adversely affect our ability to market our products and/or require us to incur significant costs to comply with such requirements.*

*We may not be able to develop new products or enhance the capabilities of our existing diagnostics products to keep pace with rapidly changing technology and customer requirements.*

*Research and development of diagnostic products requires significant testing and investment and may not result in commercially viable products within the timeline anticipated, if at all.*

*Our future success depends upon our ability to expand our customer base and introduce new products and services.*

*We have limited experience in marketing, selling and distributing our products, and we need to expand our internal and external sales and marketing force and distribution capabilities to successfully commercialize and sell our products.*

*We rely on strategic partnerships for research and development and commercialization of our products.*

*We depend upon key suppliers for some of the components and materials used in our platform technologies and our microarrays, and the loss of any of these suppliers could harm our business.*

*Future legislative or regulatory changes to the healthcare system, including reimbursement, may adversely affect our business.*

*We rely on certain key personnel and our ability to successfully grow our business would be adversely affected by their departure from our company.*

*If we cannot provide quality technical support, we could lose customers and our operating results could suffer.*

*We may experience development or manufacturing problems or delays that could limit the growth of our revenue or increase our losses.*

*Our products could have unknown defects or errors, which may give rise to claims against us and adversely affect market adoption of our systems.*

*Our future financial results may be adversely affected by foreign exchange fluctuations.*

#### **Risks Related to Intellectual Property**

*Our ability to protect our intellectual property and proprietary technology through patents and other means is uncertain.*

#### **Risks Related to Our Common Shares**

*We expect that our share price will fluctuate significantly, and you may not be able to resell your common shares at or above the current price.*

*We have never paid dividends on our common shares, and we do not anticipate paying any cash dividends in the foreseeable future.*

Management seeks to mitigate these risks, and others, primarily by retaining experienced employees and advisors who have expertise in the scientific, medical business, regulatory, manufacturing and operational disciplines of automated platform integration and immunoassay diagnostic test development.

During the current reporting period, the Company did not earn significant revenues from its consumable kits or its diagnostic platforms. However, management believes that a great deal of progress has been achieved in proving our value to several large global pharmaceutical customers. Furthermore, many of our relationships with them have been advanced to the stage where we expect recurring sales of testing platforms and consumables to 'market-ready' customers. The continuation of the Company's

research, development and commercialization activities along with investment in marketing and sales depends on the Company's ability to successfully manage its growth, investment in continued pipeline development and its cash requirements.

We are exposed to market risks related to changes in interest rates and foreign currency exchange rates, which could affect the value of our current assets and liabilities. We do not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates relative to our cash investment, due to the prime-interest-rate-based nature of the investment.

We have not entered into any forward currency contracts or other financial derivatives to hedge foreign exchange risk. We are subject to foreign exchange rate changes that could have a material effect on future operating results or cash flows.

Management will continue to review the Company's financial needs and to seek additional capital as required from sources that may include equity financing, debt financing, collaborative projects and licensing arrangements; however, there can be no assurance that such additional funding will be available or if available, whether acceptable terms can be obtained.

## Outstanding Capital Stock

As at February 10, 2016 there were 69,347,000 common shares issued and outstanding.

The following tables describe the securities that have been issued that are convertible under certain conditions into common shares:

The Company had the following warrants outstanding at February 10, 2016:

Number of Warrants	Purchase Price	Expiry Date(s)
2,276	\$2.50	October 2016
5,126	\$1.10	May 2018
16,695	\$0.65	April 2016-July 2018
3,560	\$0.60	January and February 2020
588	\$0.50	April 2016
7,631	\$0.52	December 2018
<b>35,876</b>		

The Company had the following stock options outstanding under the Plan at February 10, 2016:

Number of Options	Range of Exercise Prices
1,590	\$0.31 - 1.15
325	\$1.16 - 1.99
0	\$2.00 - 2.85
<b>1,915</b>	

## Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

## **CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES**

The Company's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

The significant accounting policies that management believes are the most critical in fully understanding and evaluating the reported financial results include the financial statements for the year ended September 31, 2015. Refer to the audited consolidated financial statements for the year ended September 30, 2015 for discussion on accounting policies and estimates that are most important in assessing, understanding and evaluating the Company's consolidated financial statements. Changes in these estimates and assumptions could have a material impact on the Company's consolidated financial statements.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

### **IFRS 9 Financial Instruments**

In October 2010, the IASB issued IFRS 9, Financial Instruments ("IFRS 9"). IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. IFRS 9 also incorporates requirements for financial liabilities, most of which were carried forward unchanged from IAS 39. Certain changes were made to the fair value option for financial liabilities to address the issue of own credit risk. IFRS 9 removes the volatility in profit or loss caused by changes to the credit risk of liabilities elected to be measured at fair value. Requirements related to hedge accounting, representing a new hedge accounting model, have been added to IFRS 9. The new model represents a substantial overhaul of hedge accounting, which will allow entities to better reflect their risk management activities in financial statements. The most significant improvements apply to those that hedge non-financial risk, so these improvements are expected to be of particular interest to non-financial institutions. In addition, a single, forward-looking expected loss impairment model is introduced, which will require more timely recognition of expected credit losses. The effective date for IFRS 9, which is to be applied retrospectively, is for annual periods beginning on or after January 1, 2018. The Company is assessing the impact of this new standard on its consolidated financial statements.

### **IFRS 15 Revenue Recognition**

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. IFRS 15 replaces the detailed guidance on revenue recognition requirements that currently exists under IFRS. IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers, unless the contracts are within the scope of other IFRS

guidance. The standard also provides a model for the measurement and recognition of gains and losses on the sale of certain non-financial assets that are not an output of the Company's ordinary activities.

Additional disclosure is required under the standard, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods, and key judgments and estimates. The standard is effective for annual periods beginning on or after January 1, 2017; early application is permitted either following a full retrospective approach or a modified retrospective approach. The modified retrospective approach allows the standard to be applied to existing contracts beginning the initial period of adoption and restatements to the comparative periods are not required. The Company is required to disclose the impact by financial line item as a result of the adoption of the new standard. The Company is currently assessing the impact of this new standard on its consolidated financial statements.

#### **IAS 1 Presentation of Financial Statements**

Amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.

## Disclosure Controls and Procedures, and Internal Control Over Financial Reporting

The accompanying financial statements have been prepared by management in accordance with International Financial Reporting Standards. For quarterly reporting periods, the Company's financial statements are approved by the Audit Committee and the Board of Directors. For annual reporting periods, the Company's financial statements are approved by the Board of Directors upon recommendation by the Audit Committee. The integrity and objectivity of these financial statements are the responsibility of management. In addition, management is responsible for all other information in this report and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

In support of this responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

In particular, the CEO and CFO or his designate are responsible for establishing and maintaining disclosure controls and procedures ("DC&Ps") and internal controls over financial reporting ("ICFRs") for the Company, and have:

- (a) designed such DC&Ps, or caused them to be designed under supervision, to provide reasonable assurance that material information is made known during the period in which the annual and quarterly filings are being prepared;
- (b) designed such ICFRs, or caused them to be designed under supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS;
- (c) evaluated the design and effectiveness of the Company's DC&Ps as of December 31, 2015;
- (d) have concluded that a material design weakness in the ICFRs may exist in terms of the inadequate segregation of certain duties, which is typical of development stage companies; mitigating factors, including dual-payment authorization policies and transparent internal financial transaction reporting processes, serve to minimize the risk that such design weakness could result in a material misstatement of results for the quarter-ended December 31, 2015; and
- (e) have concluded that, other than the item described above in sub-point (d), there are no additional material design weaknesses in the DC&Ps or ICFRs, and that the effectiveness of the DC&Ps is sufficient to expect the prevention or detection of material misstatements of results.

The financial statements include amounts that are based on the best estimates and judgments of management. The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board of Directors exercises this responsibility principally through the Audit Committee. The Audit Committee consists of three directors, all of whom are independent and not involved in the daily operations of the Company. The Audit Committee meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the financial statements prior to their presentation to the Board of Directors for approval.

**Glossary of Terms:**

**Multiplex(ing):** to obtain multiple results from one single biological sample to save time, cost and development of multiple tests

**IVD:** In vitro diagnostics; specifically assays which meet the rigorous standards of regulated bodies (FDA HC)

**CRO:** Contract Research Organization; organizations who typically conduct testing for large pharmaceutical companies and development laboratories.

**Biomarker:** Biological molecules, the presence or absence of which can be used to detect or monitor a state of disease or can be used to test the efficacy or safety of a drug in development

**ADA:** Anti drug antibodies, an immune response to administered therapeutics which are an interest for both drug efficacy and safety

**Epitope mapping:** Testing used to identify specific immunogenic regions in a drug candidate

**PK:** Pharmacokinetics – the rate at which a drug is metabolized in a patient; used to better design dosing regimens, among other things

**FDA:** U.S. Food and Drug Administration

**EMA:** European Medicines Agency

**sqidlite:** Our bench-top diagnostic system – fully automated bench top microarray processing system

**sqidworks:** Our diagnostic platform is a high-throughput fully automated microarray processing and analytical instrument

**sqid-X:** sqid-X™ System – semi-automated bench-top platform that incorporates all of SQI's technology with the exception of automated fluidics handling

**DDTS:** Drug Development Tools and Services

**R&D:** Research and development